Regional CABLESYSTEMS

1999 ANNUAL REPORT

Piecing It All Together

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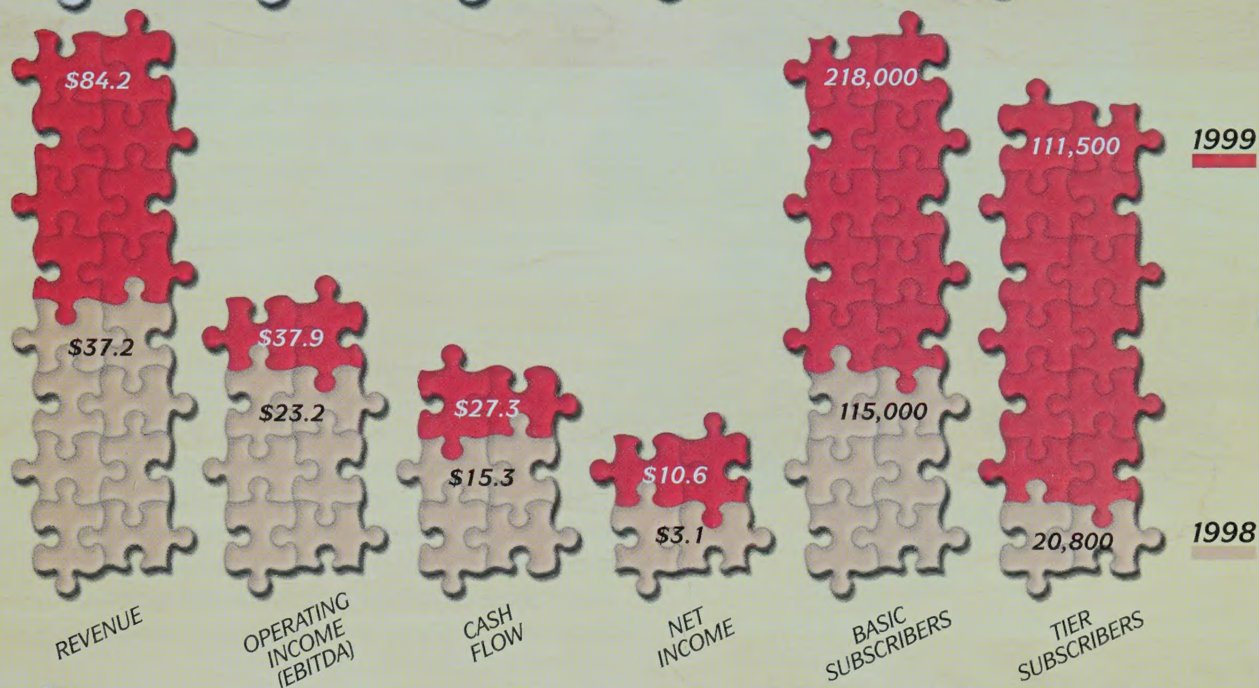
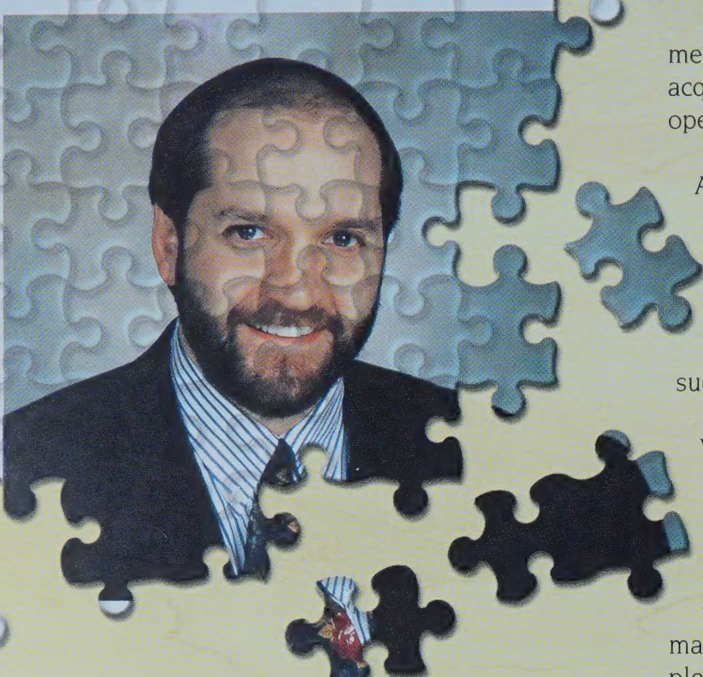
SUBSCRIBER and FINANCIAL HIGHLIGHTS



YEAR IN REVIEW

Like a jigsaw puzzle, in which assembly accelerates quickly as more pieces are put into place, Regional has undergone rapid growth in fiscal 1999 due to the successful implementation of the Company's non-metropolitan cable system acquisition strategy. In fiscal 1999, all the pieces have come together to reveal a clear picture of success. Significant achievements of the past year include:

- Subscriber levels nearly doubled from approximately 115,000 at August 31, 1998 to more than 218,000 as at August 31, 1999 and then to approximately 226,000 as at November 1, 1999.
- Revenue grew by approximately $37 million or over 78%, reaching $84.2 million in fiscal 1999.
- Operating income or EBITDA reached nearly $38 million, representing an increase of over $14.7 million or 63% over fiscal 1998 operating income of $23.2 million.
- Northern Cable Holdings Limited ("Northern") was successfully integrated into Regional's operations. Resultant efficiency gains enabled the Company to achieve its targeted 1999 operating margin of just over 45%.
- Cash flow grew by nearly $12 million or 78% to $27.3 million. Cash flow per share increased about 31% to $1.84.
- Net income for fiscal 1999 was $10.6 million, up nearly $7.6 million over fiscal 1998 net income of $3.1 million. On a per share basis, the growth was 157%; from $0.28 in fiscal 1998 to $0.72 in fiscal 1999.
- The average trading price of the Company's shares was $12.83 in fiscal 1999; approximately 21% higher than the fiscal 1998 average price of $10.64. The Company's share price also reached a high of $17.85 in fiscal 1999 (Fiscal 1998 high, $13.25).
- As at November 1, 1999 the Company had under letter of intent or contract cable system acquisitions comprising of further 30,000 subscribers.
- Regional launched a new telecom division during fiscal 1999. Contracts in place for fiscal 2000 will generate an estimated $1.4 million in revenue.
- In fiscal 1999 Regional entered into an agreement with AOL Canada to become the first cable television operator in Canada to open up its network to third party internet service providers for the provision of high speed cable modem internet service.



REPORT TO SHAREHOLDERS

Like the bleary-eyed jigsaw puzzler who finally inserts the last piece in place in the early morning hours, fiscal 1999 will undoubtedly be remembered as the year Regional Cablesystems finally "pieced it all together".

At the outset, we had a solid strategy, an organized approach and a logical framework upon which to build. But there were still many pieces of our corporate puzzle to be completed. However, to ensure we solved our challenge, we clearly defined and organized a series of goals to be accomplished throughout 1999. The first of these goals was to structure a management team that could successfully direct a company with 350,000 non-metropolitan customers and $150 million in annual revenue. Secondly, we had to take measures to successfully integrate Northern into Regional with a challenge of increasing its operating margin in line with the rest of the Company. Thirdly, management was empowered to aggressively pursue the implementation of its non-metropolitan cable system acquisition strategy at each of the Company's four operating divisions.

And finally, we were to remain vigilant in protecting and growing our business through aggressively marketing our product in the absence of significant rate increases.

It is with great pride that we report that we succeeded in realizing all of our goals.

With the acquisition of Northern scheduled for November, we quickly took measures to piece together a new and stronger management team. We undertook a series of executive searches and operational reviews at Northern that culminated with the hiring of a new general manager, a new director of marketing and the complete restructuring of the existing management team. We also took steps to strengthen our management capabilities at our Western, Central, Atlantic and Head Office divisions.

On November 1, 1998 Regional closed its acquisition of Northern Cable Holdings Limited. The task of effectively integrating Northern into Regional's fold began immediately. We quickly refocused a new management team, restructured the operations, replaced technical contract labour with in-house expertise, negotiated new signal sourcing contracts, migrated to a common billing system, converted to consistent accounting platforms and reduced expenditures on industry associations and memberships. In the end, we pushed Northern's operating margin from below 40% to 45% in just ten months.

During the year we stayed focused on implementing our non-metropolitan cable system acquisition strategy. As the year began, we had 115,000 customers and 521 cable systems. Throughout the year we closed transactions that added new systems in Newfoundland, Quebec, Ontario and Alberta. As a result, we ended the year with close to 220,000 customers, an increase of 91%. And we continued to aggressively fill in the missing pieces to our Canadian puzzle. At year-end, Regional had executed agreements to acquire an additional 61 systems serving more than 35,000 customers in Newfoundland, Quebec, Ontario, Manitoba, Saskatchewan and British Columbia. By November

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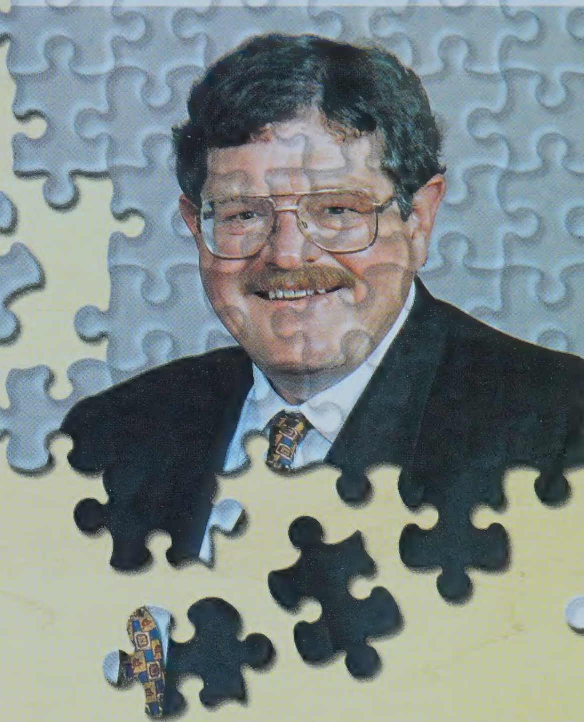
1, 1999, three of these transactions had closed and another deal was consummated, leaving Regional with 226,000 customers and close to 30,000 subscribers pending acquisition. All remaining transactions are awaiting CRTC approval and are expected to close in fiscal year 2000.

Based on our focused strategy and our financial planning in fiscal 1998, many of the financial pieces of the puzzle fell neatly into place. Revenue soared by 78% from $47.2 million in 1998 to $84.2 million in 1999. Operating income (EBITDA) rose to nearly $38 million, up 63% over the previous year's performance, while operating cash flow jumped to $27.3 million from $15.3 million a year earlier. Despite the many challenges of integrating new networks, dealing with Class 1 system issues and instilling a new corporate culture at Northern, Regional remained one of the most efficient cable operators in Canada with an operating margin in excess of 45% and annualized operating income of $186 per subscriber.

The past fiscal year will long be remembered as the year that true competition arrived for the cable television industry. Although Regional had strived to prepare itself for the day of competition, a true formidable opponent had yet to emerge. Today, a myriad of competition exists as new market entrants in the satellite and wireless businesses court our customers.

Our past investment in building brand awareness and customer loyalty paid big dividends in combating the competition. Through such programs as our Youth Merit Awards, University Scholarship Program and Reach, Regional's economic assistance program, we earned our customers' loyalty when they were faced with a true choice. Despite the so-called experts who projected that non-urban cable operations would fall victim to these new service providers, Regional held its own and actually experienced net subscriber growth in its rural markets.

We have invested in our customers' loyalty. For several years now we have adhered to an operating philosophy consistent with that of a competitive marketplace. We have aggressively added product in the absence of rate increases, while progressing our headend elimination projects through ongoing fibre optic deployment and system integration.



We have asked our customers for their input at every step along the way. We have targeted acquisitions that improve the efficiency of our operations and in turn allow us to offer a more competitive product. And perhaps most importantly, we have remained focused on our corporate mission "to serve the customer".

Most of the credit for our continued success lies with Regional's employees across Canada, who through their hard work and dedication ensure our mission is achieved. In an ironic kind of way, their actions in the absence of competition prepared us well for the day it arrived. In the end, the future of your Company is no longer puzzling.

Brendan Paddick
President & Chief Operating Officer

Gary Kain
Chairman

BLACK DIAMOND

PIECING IT ALL TOGETHER

The history of jigsaw puzzles dates back to the 1760's when European mapmakers pasted maps onto sheets of wood and then cut them into more manageable smaller pieces. The "dissected map" has been a successful educational tool ever since. In fact, children all across Canada still learn geography by playing with puzzles of Canada, North America and the world.

"The puzzles of the past were quite a challenge, not unlike the past of Regional Cablesystems."

Puzzles for adults began to emerge around the turn of the century, and by 1908 a full-blown craze was in progress. Contemporary writers depicted the inexorable progression of the jigsaw puzzle addict: from the skeptic who first ridiculed puzzles, to the perplexed puzzler who could not step away until they solved just one more piece, to the puzzler burning the midnight oil until victory and completion were achieved.

The puzzles of the past were quite a challenge, not unlike the past of Regional Cablesystems. Back then, most pieces were cut exactly on the colour lines, they did not interlock and they had no picture on the box to guide the puzzler towards meeting his goal. During the early days of Regional, we too went through a period where solving our problems posed an extreme challenge. Our operating territories were not clearly defined, our systems were dispersed and difficult to interconnect or integrate, and our lack of critical mass and efficient clustering of cable systems made it difficult to financially piece it all together.

Because early jigsaw puzzles were made of wood and were cut one piece at a time, they were expensive to make and even more expensive to buy. Like the Regional of old, the economies of scale had not been achieved to make puzzles attainable to the general populous. In the 1930's, the introduction of mass-produced, die cut cardboard puzzles allowed manufacturers to lower their costs, to increase their product lines and to cut prices dramatically. This evolution is ominously similar to the development and introduction of digital video compression and fibre optic technology to the cable industry in the late 1990's. These developments lowered Regional's signal fees and operating costs, increased our efficiencies, allowed us to add more product and provided better value for our customers. In the end, Regional had the financial pieces of its puzzle all sorted out and was ready to aggressively embark on its non-metropolitan cable system acquisition strategy.

LONGVIEW

PIECING TOGETHER OUR MANAGEMENT TEAM

> "...we remained committed to maintaining a very lean and focused corporate staff."

Entering fiscal 1999, one of our key objectives was to complete the structuring and implementation of a management team by bolstering our existing talent with individuals capable of managing rapid growth and change. And bolster our talent we did.

At our new Northern division we retained professional consultants to conduct executive searches. As a result we hired a new general manager to direct the culture change that lay ahead. In addition, we installed a new director of marketing and sales to help guide Northern's transition into a competitive marketplace. With new leadership in place, we commenced a series of organizational structure changes. The cable advertising and community programming departments were amalgamated into a more efficient and aggressive Cable Broadcast department. The use of third party technical contractors for service work was replaced with the hiring of new full time technical employees. And most significantly, we announced the formation of a new Telecom Group to spearhead our entry into the lucrative telecom and data business.

We built upon our management expertise at our other divisions as well. At our Western division, we strengthened our management with the addition of a new director of marketing and sales, while in Central we completely re-vamped our technical operations. The Atlantic division also saw an increase in the depth of its management with the formation of three new positions that resulted in the addition of a new general manager, director of finance, and marketing manager.

Although we aggressively pursued our goal of piecing together a capable management team, we remained committed to maintaining a very lean and focused corporate staff. During the year, Regional downloaded many of its corporate responsibilities to the divisional offices, where decisions could be made closer to the customer. Yet, we strengthened our corporate team with the addition of a new director of human resources as fiscal 1999 saw our employee base virtually double to more than 300. In fiscal 2000, we will continue to attract the talent required to grow our business profitably.

WAKAW

OPENING A NEW PUZZLE
Northern Division

The $120 million acquisition of Northern from Videotron of Montreal added close to100,000 customers, virtually doubling our subscriber base and our revenue. Highly concentrated in Sudbury and Timmins, Northern's systems were well suited to our clustering infrastructure, and provided instant critical mass.

These cable systems are technically advanced, providing customers with the programming variety they demand. Today, over 85% of our northern Ontario subscribers have access to more than 60 channels.

And in the past two years, over 950 km of fibre optic cable has been deployed in northern Ontario to interconnect small systems, improve system reliability, expand channel capacity and enhance channel lineups in smaller communities.

The integration of Northern's operations into Regional's has already generated significant cost savings. Northern's annual operating expenses were reduced by $1.6 million in the first ten months, or by close to $2 million annually. This has allowed us to move Northern's operating margins closer to Regional's industry high level. In fact, the operating margin of Northern has increased from below 40% to 45% in just ten months.

After giving our new management team in Sudbury time to implement numerous organizational changes, Regional got busy pursuing acquisitions that would improve the operating efficiencies of our new Northern division.

On July 22nd, we entered an agreement to aquire Earlton Cable TV, a system of 300 subscribers located in close proximity to our existing systems in New Liskeard and Cobalt.

Then on September 1, Regional executed an agreement to acquire Supreme Cable TV, also located in northern Ontario. Supreme provides service to approximately 4,000 customers in Kirkland Lake. This acquisition, which calls for a purchase price of $3.4 million or $875 per subscriber, will add approximately $1.4 million in annualized revenue to Regional.

Both of these transactions are particularly significant to Regional as they confirm management's belief that its non-metropolitan cable acquisition strategy could be successfully implemented in its newest territory.

ENHANCING THE PUZZLE
Atlantic Division

Shortly into our 1999 fiscal year, our Atlantic division closed transactions that saw the acquisition of three cable companies and 6,300 plus subscribers.

In September, 1998 we closed a transaction to acquire BMC Cablevision Company Limited, a system with over 800 customers located in close proximity to a number of existing Regional cable systems.

September also saw Regional acquire Bonavista Cablevision Limited, a company with two systems providing service to approximately 2,000 customers. These systems completed our rationalization of the Bonavista Peninsula region of Newfoundland, filling in the missing pieces of our puzzle. We then looked for new areas of growth within Newfoundland.

To accomplish this we looked up, as in up North. On November 1st, we closed a transaction to acquire Cable Labrador Limited. Cable Labrador provided cable service to in excess of 3,500 customers in 16 communities in Labrador, most notably Happy Valley-Goose Bay.

Goose Bay, along with hosting a NATO air force training base, will undoubtedly enjoy significant growth with the future development of two highly anticipated mega-projects. The lower Churchill River hydro development and the startup and production of the Voisey's Bay nickel mine will undoubtedly drive the demand for premium cable services, high speed internet access and advanced telecommunications and data applications in Labrador.

As part of this transaction, Regional also acquired the cable system in Nain, the closest community to the Voisey's Bay ore discovery, as well as the CRTC license for the actual Voisey's Bay mining site.

EXPANDING THE PUZZLE
Western Division

Our Western division, headquartered in Edmonton, manages our operations in Manitoba, Saskatchewan, Alberta and British Columbia. A puzzle the size of western Canada not only has the most pieces, it has the most opportunity to fill in the missing pieces. And fill in those pieces we did in 1999.

The acquisition of 80 cable systems will boost Regional's Western division's subscriber levels by approximately 34,000.

Sixteen of these systems, serving 4,600 customers, were acquired on September 1st from Western Canadian Communications in Alberta. These systems clustered perfectly with our existing cable properties in a corridor running primarily between Lethbridge, Calgary and Red Deer.

The acquisition of Prairie Cable TV, Consort Cable TV and Coronation Cable TV added 1,500 customers

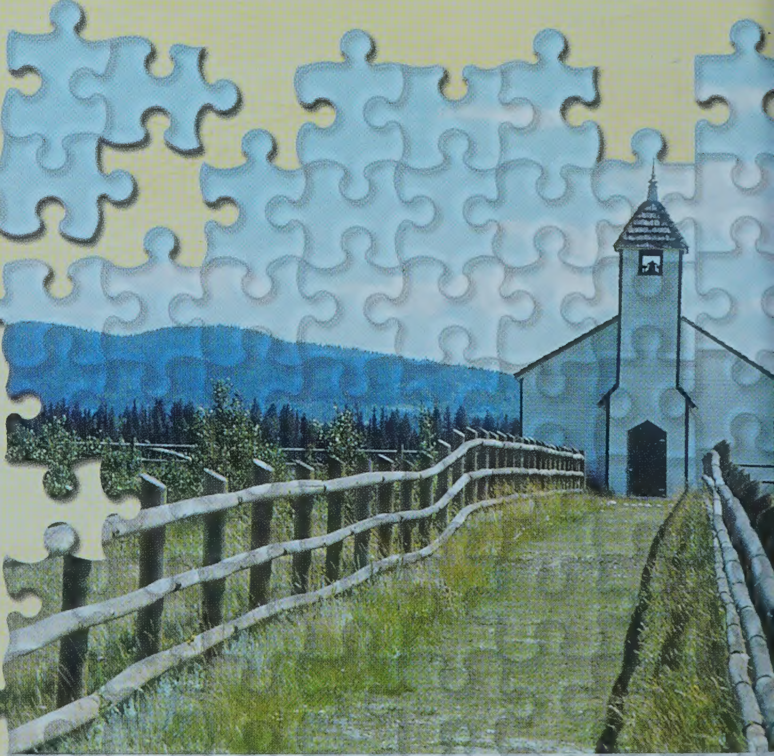
RE-ORGANIZING THE PUZZLE
Central Division

In our Central division, we continue to pursue acquisition opportunities to strengthen our position in eastern Ontario and western Quebec. With the divestiture of our cable system in Cote de Beaupre, Quebec, management was challenged with rebuilding the critical subscriber mass and clustering efficiencies required to grow the business profitably.

In July, we closed the acquisition of CMD Cable, which currently provides service to over 1,000 customers in Fort Coulonge, Quebec.

A swap of cable systems with Cogeco Cable closed on August 31st and resulted in a net gain of about 1,000 subscribers, enabling us to grow in our core market and to exit the southwestern Ontario market.

And in late October, Regional announced agreements to acquire two more cable operators in Quebec. The acquisition of Pontiac Cable serving Campbell's Bay and Shawville Cable serving Shawville will add an additional 1,200 subscribers during fiscal year 2000.



in Central Alberta. All three of these transactions closed on February 1st, while the acquisition of Lac Sat Communications and its 900 customers in Alberta closed on April 1st.

On August 1st, we closed a deal to acquire Langdon Cable, a system with 300 subscribers located just east of Calgary.

Subsequent to year-end, we closed the aquisition of the assets of two additional cable companies. Wood Lake Cable TV provided service to approximately 5,000 customers in Oliver and Osoyoos, British Columbia, while Keremeos Cable TV added an additional 850 subscribers in Keremeos, British Columbia. All three communities are located in the Okanagon Valley.

Regional also entered into a number of agreements to acquire cable properties that are expected to close in fiscal year 2000. This past March, Regional executed an agreement to acquire the cable television assets of Image Cable Systems Limited of Yorkton, Saskatchewan. This $22.5 million transaction will see Regional add 50 cable properties and more than 20,400 customers in southeastern Saskatchewan. These systems will cluster perfectly with Regional's 133 existing cable systems in Saskatchewan, once again providing cost savings and superior operating efficiencies. A CRTC hearing was held on November 16th, and we expect to close this transaction effective February 1st, 2000.

And finally, the acquisition of Winnipeg River Cable TV in Pine Falls, Manitoba will add 500 customers in the new year. This represents our first acquisition in the province of Manitoba.

FILLING IN THE PUZZLE
Strong National Presence

As a result of these transactions, Regional will soon be operating 670 cable systems serving 260,000 subscribers. This represents a 125% increase in our customer base since the start of fiscal 1999 levels, and further solidifies Regional's position as the 6th largest cable operator in the country.

With our decentralized operating structure, and our cost conscious management philosophy, we know that Regional is well positioned to absorb and effectively manage these acquisitions.

PROGRESSING THE PUZZLE
Substantial Acquisition Opportunities Ahead

Given our track record of successfully creating and capitalizing on acquisition opportunities, we will continue to be highly selective and focused in the cable systems we target.

Only those that are in non-metropolitan communities and that are highly suited to our clustering infrastructure will be considered. And most importantly, acquisitions must positively contribute to earnings and cash flow. In other word, the pieces have to fit perfectly.

The cable TV industry in Canada continues to be in the early stages of consolidation. There are still over 500 independently owned, small non-metropolitan systems serving over 300,000 customers in Canada. We are confident that Regional will continue to accelerate its acquisition program in 2000.

COMPLETING THE PUZZLE

Filling In The Missing Pieces

The eighteenth century inventors of jigsaw puzzles would be amazed to see the immense transformations of the last 240 years. Children's puzzles have moved from lessons to entertainment, showing a wide diversity of subjects in an ever more challenging manner. They would be equally amazed at how Regional Cablesystems moved this intricate craft from the playroom to the boardroom.

Missing pieces to a puzzle drive people crazy. In order to ensure its future prosperity, Regional had to concentrate on more than simply filling in the Canadian puzzle with acquisition after acquisition; it had to identify and address many other missing pieces to its overall corporate puzzle.

Telecom

Although Regional is not a telecommunications company, it simply will not turn a blind eye to profitable telecom and internet opportunities that are clearly viable adjuncts to its existing business.

Regional currently has an immense network that includes over 1,500 kms of fibre optic plant; an asset that will undoubtedly prove to be extremely valuable in time. In fact, our Northern division's 1,000 kms of fibre optic plant running from east of Sault Ste. Marie through Sudbury, onwards to North Bay and south to Huntsville, has already resulted in many telecom contracts with hospitals, school boards and other telecom providers.

We view the use of a fibre optic network for transporting data for commercial users as a new avenue to once again enhance the profitability of our core cable business. The telecom business is extremely profitable, and as such we fully intend to provide these services in-house. The $1.4 million in annual contracts signed since November 1st, 1998 speak loudly to our bright future in this exciting new business.

Internet

On the internet front, we have taken a different approach. Regional is the first public cable company in Canada to open up its network to competitive access for third party Internet Service Providers ("ISPs"). In May, we filed a market trial tariff with the CRTC that allowed competitive ISP's in Timmins to provide residential consumers with access to high speed, two-way cable modem service.

This announcement lead to the negotiation and subsequent execution of an agreement between Regional and AOL Canada Inc. that will see AOL Canada trial high speed broadband access over cable, commencing in early 2000 and leading up to a national rollout. With AOL Canada, we will work to break down the current barriers to offering high speed internet access to small markets. AOL Canada's expertise in content development, internet service provisioning, consumer marketing, customer service and technical support will be married with Regional's own expertise in broadband communications and the delivery of high quality, reliable service.

We have made the conscious decision that we do not want to be a residential ISP, rather we simply want to tap the present and future profit stream opportunities presented by the internet, through partnering with ISP specialists.

Star Choice Agreement

In May, 1999 Regional announced that it had signed a deal to acquire wholesale television signals from Star Choice Business Network Services. Star Choice provides Regional with a more reliable and cost effective method for distributing broadcast signals. Under the terms of the agreement, Star Choice will broadcast via satellite U.S. networks, including ABC, CBS, NBC, PBS and FOX, as well as other English and French distant television signals to Regional's cable headends.

Over the term of the new contract, Regional's monthly wholesale fees for U.S.

network television and distant Canadian signals will decrease significantly from its existing Cancom wholesale rates. This decrease in signal cost will allow Regional to remain competitive by significantly enhancing its current channel lineup, while at the same time improving upon its industry-high operating margin. In October 1999, Regional converted all of its Northern systems from Cancom to Star Choice, effectively cutting in half its wholesale fees for the affected signals.

Launch of New Tiers

Fiscal 1999 also saw the launch of Regional's first discretionary tiers in its smaller systems, developed to compliment Regional's traditional packaging approach of enhanced basic cable. Competition has added a new piece to our puzzle. In fact, it has increased the overall consumer appetite for new product. Regional plans to exploit this appetite in fiscal year 2000 as we will aggressively add new optional packages of programming. The new tiers will be packaged and priced to garner immediate market acceptance and to generate the 50% operating margin we demand.

Customer Loyalty

Regional remains committed to preserving customer loyalty and to putting a face on the Company. As such, we have deliberately established a strong presence in the communities we serve through a number of innovative community programs.

One of these programs is our Youth Merit Awards, which recognizes the valuable contributions that young people make to their communities. We strongly believe that the volunteer efforts and creative ideas of Canada's youth make a unique contribution to our society, and should be encouraged.

Each year a panel of cable industry leaders selects the winners from all regions across Canada following a nomination process facilitated by community leaders, educators, special interest groups and school administrators.

Another of these grass roots initiatives is our University Scholarship Program. Each year we award a series of scholarships across Canada to students in pursuit of post-secondary education. Applicants for these scholarships must be dependents of Regional subscribers and must have achieved scholarship status from the Canadian university of his or her choice.

In many of the small communities we serve, scholarship opportunities are not abundant. As such, Regional stands out as a prominent corporate citizen.

And perhaps our most successful community initiative to date is Regional's Economic Assistance Program known as REACH.

This program provides funding for capital projects in the towns we service. Each year we award grants totaling $100,000 to applicants from the communities we serve. Community interest groups submit applications for funding to the Company, which are then judged by an employee committee.

All of these programs are about driving home the message to our customers that we truly want to be part of their community and that our corporate mission statement is simply: "*To Serve the Customer*". We are confident that these community projects serve to generate goodwill and high brand awareness at the grass roots level, while providing Regional with a competitive edge.

We believe that we have organized the pieces of our puzzle well; filling in areas that improve the outlook for our Company, while at the same time adding new pieces that uncover hidden opportunities. Just as we think we are close to completing our challenge a new one will appear. That is the very essence of our industry. But as long as we stay focused and remain committed to serving our customers, every new piece to the puzzle will fall logically into place.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Fiscal 1999 is best described as a year of growth. Regional has essentially doubled in size since the end of fiscal 1998.

As always, management's primary goal is the enhancement of shareholder value. To that end, management's focus in fiscal 1999 was in three key areas.

The first area was the careful implementation of the Company's cable system acquisition strategy to grow the business. Regional views itself as the consolidator of the non-metropolitan cable television market in Canada. This market is fragmented among a large number of relatively small operators and Regional is the only major player actively acquiring cable systems in these markets. The growth potential is enormous and affords Regional the luxury of selecting only those cable systems that best fit its existing system clusters, thereby maximizing resultant economies of scale and benefits of synergies. This has also greatly contributed to the Company's success in purchasing cable systems at very favourable prices.

The second area of focus in fiscal 1999 was coping with the rapid growth generated by the success of the Company's cable system acquisition strategy. In particular, this meant successfully integrating Northern into Regional. A new senior management team was immediately put in place at Northern and was charged with the responsibility of installing the Regional corporate culture in Northern and with realizing the enormous opportunity for efficiency gains that existed. The first step in achieving these goals was to ensure that systems were developed to provide information critical to the evaluation and monitoring of operations. As a result, a customer data base and billing platform identical to that used in Regional's other divisions was installed which, in addition to significantly reducing data processing costs, improved the ability of Northern's customer service and technical departments to carry out their functions. Financial reporting systems were re-designed to mirror those of the other operating divisions, thereby providing the data necessary to carefully monitor and compare financial results on a timely basis. Comprehensive reviews of Northern's accounting systems, internal controls, departmental structures, staffing levels, and operating practices, etc. have also been undertaken. Additional reviews are ongoing. The improvements that were yielded by these activities were substantial and were sufficient to enable the Company to achieve its targeted operating margin of 45% in fiscal 1999.

The third key area of focus was, quite simply, "to stay focused". Regional's success is rooted in several core operating strategies. These include strict cost control, the careful management of billing rates whereby rate increases are modest and are supported by enhanced channel line-ups, the continual expansion of product offerings to increase the amount of revenue derived from each subscriber and the provision of high quality customer service. It is management's view that the Company must continue to follow and build upon its basic and proven formula for success. Ultimately, the success of the Company's cable system acquisition program will be greatly impacted by the adherence to these core operating strategies.

On the strength of the foregoing, the goal of enhancing shareholder value in fiscal 1999 was achieved. The average trading price of the Company's shares grew by 21% during the year; from $10.64 in fiscal 1998 to $12.83 in fiscal 1999. The average trading price further increased to $13.82 in September, 1999. Further, the Company's share price reached a new high of $17.85 in fiscal 1999. The previous high was $13.25, achieved in fiscal 1998.

Subscribers & Revenue

The Company's subscriber base has nearly doubled since the end of the 1998 fiscal year. At that time, Regional served approximately 115,000 subscribers. That number grew to 218,000 as at August 31, 1999 due primarily to the successful implementation of the Company's non-metropolitan cable system acquisition program. Subsequently, the Company's subscriber base grew to approximately 220,300 subscribers as at October 31, 1999 on the strength of successful marketing initiatives. On November 1, 1999 the Company's 70.1% owned subsidiary, Regional Cable TV (Western) Inc. ("Western") closed the acquisition of the cable assets of two cable television companies serving approximately 5,850 subscribers in British Columbia. This acquisition increased the Company's total subscriber base to just over 226,000 at November 1, 1999. As of that date, Regional also had under contract or letter of intent further cable system acquisitions

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comprising an additional 29,750 subscribers. Several other acquisitions are currently in pursuit.

Regional acquired 108,550 net subscribers in fiscal 1999. In addition to the 100,000 subscribers in its Northern division, the Company acquired cable systems constituting 7,250 subscribers in Alberta which are operated by Western and cable systems serving 6,300 subscribers in Newfoundland and Labrador which are operated by its Atlantic division. In Quebec, the Company acquired 1,000 subscribers and divested a non-core cable system serving 6,900 subscribers. In addition, the Company completed a cable system swap with Cogeco Cable under which it acquired cable systems serving approximately 3,200 subscribers in eastern Ontario in exchange for several of its systems serving approximately 2,300 subscribers in southern Ontario and cash. The Company's cable systems in eastern Ontario and western Quebec are operated by its Central division. The divested systems were considered non-core because they were costly to service due to their geographic location relative to the Company's other systems. Efficiency gains realized from tightening system clusters enhance profitability levels in such clusters. This concept is also an integral part of the selection and evaluation of acquisition targets.

All seven of the Company's pending acquisitions, which collectively account for 29,750 additional subscribers, are expected to close in fiscal 2000. Two acquisitions comprising 1,200 subscribers have letters of intent in place and the remaining five acquisitions comprising 28,550 subscribers have definitive agreements of purchase and sale in place and are subject only to CRTC approval. Geographically, these acquisitions are comprised of 3,450 subscribers in Newfoundland, 1,200 subscribers in Quebec, 4,150 subscribers in Ontario, 500 subscribers in Manitoba and 20,450 subscribers in Saskatchewan. The Newfoundland, Quebec and Ontario systems will be operated by the Company's Atlantic, Central and Northern divisions, respectively. The remaining systems will be operated by Western.

Revenue

Total revenue reached $84.2 million in fiscal 1999; up approximately $37 million or 78.4% over fiscal 1998 revenue of $47.2 million. Much of this growth is attributable to acquisitions. Significant growth is targeted over the next few years as the Company focuses on its non-metropolitan cable system acquisition strategy. Based on acquisition activity thus far in fiscal 2000, and on the Company's fiscal 2000 budget, revenue is targeted to exceed the $100 million mark in fiscal 2000.

In addition to acquisition driven revenue growth, Regional continues to enhance revenue levels by increasing the amount of revenue derived from each subscriber in its base. Consistent with each of the five fiscal years preceding fiscal 1999, the Company achieved a $1 increase in per subscriber per month ("PSPM") revenue levels as revenue increased from a fiscal 1998 level of $34 PSPM to $35 PSPM in fiscal 1999. This growth was not achieved through significant rate increases. The Company continues to adhere to its proven core strategy whereby rate increases are minimal and are tied to expanded channel offerings to enhance the value of the service packages offered. Management believes that this strategy is increasingly important to the protection and growth of the Companys subscriber base in a competitive marketplace. Rather, PSPM revenue growth is attributable primarily to the expansion of services offered and new revenue streams.

In its core cable services area, the Company continued to aggressively add tiered service packages in fiscal 1999. On a year over year basis, and adjusted for the impact of acquisitions (i.e., as if acquisitions in fiscal 1999 had closed at the start of fiscal 1998), tier revenue grew by approximately $1.7 million or 15.7% in fiscal 1999. Tier services, which accounted for approximately 12% of fiscal 1998 cable revenue, generated 13.6% of fiscal 1999 cable revenue. Significant growth potential still remains.

The Company's Northern division launched its telecom operations in fiscal 1999 generating revenue of nearly $600,000. Contracts already in place for fiscal 2000 will generate an estimated $1.4 million in revenue. The Company is actively pursuing a variety of additional telecom opportunities. Fiscal 1999 also saw the ground work laid for potentially significant revenue growth in the lucrative internet market. The Company has entered into an agreement with AOL Canada to become the first cable

television operator in Canada to open up its network to third party internet service providers for the provision of high speed cable modem internet service. This type of arrangement allows the Company to generate an entirely new revenue stream from its existing cable system infrastructures for a negligible capital outlay. By partnering with ISPs, management is optimistic that such services will become viable in many of its markets where it would otherwise not be viable due to their low population densities. Internet and telecom services represent an exciting opportunity for future revenue growth.

Direct Costs

Signal and copyright costs on cable operations account for 97% of the Company's direct costs. Microwave costs of $233,000 in fiscal 1999 were comprised primarily of salary and repair costs incurred in connection with the operation of the microwave business of the Company's Northern division. These costs were 56% of microwave revenues generated, yielding a gross margin of 44% for the microwave operations. As the Company sees little opportunity for growth in these microwave operations, it is increasingly shifting its focus to lucrative telecom and internet opportunities. Fiscal 1999 internet and telecom costs of $339,000 were also relatively minor, accounting for only 1.8% of fiscal 1999 direct costs as these businesses are in the early stages of development. These costs were 56.9% of internet and telecom revenue. The resultant gross margin of 43.1% is expected to increase rapidly and significantly as revenue streams grow over the next several years.

Signal and copyright costs are carefully managed as they represent the Company's largest expense. By controlling these costs, the Company has been able to consistently and significantly enhance its channel lineups and product offerings, while maintaining high gross margins in its cable operations with only modest rate increases. The increase in value to its subscribers created by this core operating strategy has been a key factor in the maintenance and growth of the Company's subscriber base.

Regional has been able to control its signal costs through careful channel selection and packaging, its bulk buying power, and its attention to signal contract negotiations. In particular, the Company's seven year contract with Cancom, one of its two major signal suppliers, has played a major role in this strategy. Effective January 1, 1996, this contract reduced Regional's average monthly signal expense charge per channel subscriber from $0.70 to $0.25 for signals received from Cancom. Accordingly, signal and copyright costs fell from an average of approximately $6.80 PSPM or 25% of subscription revenue prior to 1996 to $6.22 PSPM or 21% of subscription revenue in that year. In fiscal 1997 these costs fell to $5.99 PSPM or 19.6% of subscription revenue as the Company enjoyed its first full year of Cancom savings. In fiscal 1998, signal and copyright costs remained flat at the 1997 levels of $5.99 PSPM and 19.6% of subscription revenue as the Company was successful in negotiating signal waivers for newly launched services.

In fiscal 1999, signal and copyright costs increased to 23.6% of subscription revenue due primarily to the acquisition of Northern. Unlike the remainder of the Company's subscribers which are located almost exclusively in Class 3 systems, about 61% of Northern's subscribers are situated in Class 1 systems and 17% are located in Class 2 systems. Under CRTC regulations, Class 1 and 2 systems are subject to specific "must carry" rules and distribution and linkage requirements with respect to their channel lineups and packaging. In addition, the basic monthly fees for Class 1 systems are regulated. Further, the mix of services offered by Northern differs significantly from those of the remainder of Regional. For example, Northern offers pay-per-view services which are not offered elsewhere in the Company. Northern also derived over 27% of its fiscal 1999 subscription revenue from tiered services compared to about 4% in the rest of Regional. Due to these fundamental differences, Northern's signal and copyright costs were 27.6% of its fiscal 1999 subscription revenue versus a ratio of 21% in the Company's remaining operations. Absent Northern, the increase in the signal and copyright expense to subscription revenue ratio from 19.6% in fiscal 1998 to 21% in fiscal 1999 was due to three factors:

(i) The corresponding ratio in acquisitions other than Northern during fiscal 1999 exceeded 19.6%;

(ii) As noted earlier in the commentary with respect to revenue, the Company enhanced its tier services in fiscal 1999, which services have a higher signal and copyright cost to revenue ratio than basic cable packages, and;

(iii) Rate increases in some systems were not sufficient to maintain gross margins on expanded channel lineups. Such systems were generally located in areas where direct satellite television services were being aggressively marketed.

On April 29, 1999 Regional entered into a 10 year affiliation

agreement with Star Choice. The agreement provides for a maximum monthly signal rate of 10 cents. Rates are progressively reduced to as low as 7.5 cents per channel per month as pre-determined subscription thresholds are met. Rates are also open to negotiable reduction below the 7.5 cent level once channel subscriptions exceed three million. Regional switched its Northern division from Cancom to Star Choice in October, 1999, thereby making Star Choice its second major channel supplier. Savings from this switch at our Northern division alone are expected to approach $500,000 per annum based on existing subscriber levels.

Operating Expenses

Operating expenses are comprised of technical, administrative, marketing and broadcast services expenditures. Broadcast services relate primarily to Northern and include the net results of its advertising channel operations, community programming costs and contributions to a programming fund. The latter two expenditure areas within broadcast services are required under CRTC regulations for the Class 1 and 2 cable systems that account for about 78% of Northern's subscribers.

Strong internal cost controls and careful monitoring of expenditure levels are ongoing and integral aspects of Regional's operating strategies. Regional did not lose sight of this during the cable system acquisition program that dominated much of its focus in fiscal 1999. In fact, much of the extensive work carried out during the year to integrate Northern centered around analyzing Northern's operating expenses in an effort to bring Northern's expenditure patterns in line with the rest of Regional. In particular, a key goal was to identify and realize efficiency gains to offset the additional corporate level overhead costs that are necessary to properly manage a company that has doubled in size. This goal was achieved. As a percentage of revenue, total operating expenses actually fell slightly, from 33.3% in fiscal 1998 to 32.7% in fiscal 1999. The decline is even larger when Northern's broadcast services expenditures, which are controllable only within the framework of CRTC regulations, are removed from the comparison. Under this approach, total technical, administrative and marketing costs fell from 33.3% of revenue in fiscal 1998 to 32.2% in fiscal 1999.

Technical expenses fell from 16.8% of revenue in fiscal 1998 to 15.7% of revenue in fiscal 1999. There are two major causes of this decline. First, Northern's technical costs as a percentage of revenue are historically lower than those of the remainder of Regional; averaging about 13.8% at Northern for fiscal 1996 through 1998 versus 16.9% for the rest of Regional during this time period. Costs were lower at Northern due to its much larger system sizes. Northern operates 58 systems and about 61% of its subscribers are located in two systems; Sudbury and Timmins. In contrast, the remainder of Regional operated 540 systems in fiscal 1999. The second cause of the decline in technical costs relative to revenue levels from fiscal 1998 to 1999 was cost cutting attributable to enhanced monitoring and controlling of expenditure levels, i.e., continued focus on successful strategies of past years. During the ten months of fiscal 1999 that the Company owned and operated Northern, technical spending in that division was reduced from its prior average level of 13.8% to 12.1% of divisional revenue.

As always, Regional has been, and will continue to be, very diligent in keeping its cable systems in solid operating condition. Cost declines do not equate to degradation of technical maintenance or technical service. In Regional's case, it simply means smarter spending. For example, shortly after acquiring Northern, the Company hired, as employees, most of the external contractors that had been performing Northern's maintenance and installation activities. This move played a key part in the successful reduction of Northern's technical spending in fiscal 1999. The Company has also approached several key suppliers to negotiate reduced prices using both the enhanced buying power brought on by its rapid growth and the practice of bulk purchasing particular supplies from a single supplier for all operating divisions. In addition, the Company has undertaken a comprehensive review of Northern's inventory management with a view to reducing inventory levels and minimizing costs associated with the movement of inventory to its various systems.

In fiscal 2000, the Company will continue its comprehensive evaluation of Northern's technical spending as well as that of other acquired systems. Careful monitoring of expenditure levels and strong internal cost controls will continue to be a core strategy in the management of technical spending. Based on the Company's

fiscal 2000 budget and results achieved thus far in the year, management has targeted technical spending to remain relatively flat at about 15.5% to 15.7% of revenue in fiscal 2000.

In its fiscal 1998 annual report, the Company acknowledged that its rapid growth early in fiscal 1999 would necessitate additional senior management personnel to properly manage a much larger organization, i.e., administrative overhead costs would increase. It also stated that it would continue to utilize the successful cost control practices of prior years in managing fiscal 1999 administrative costs, and would work to realize, to the maximum extent possible, the economies of scale and synergistic benefits created by its acquisition of Northern and other acquisitions. This was accomplished. Administrative spending was 12.4% of revenue in fiscal 1998 and was 12.3% of revenue in fiscal 1999.

Absent Northern, the Company had reduced its administrative spending from 13.3% of revenue in fiscal 1996, to 13% in 1997 and then to 12.4% in fiscal 1999. During this same time period, Northern's administrative costs were relatively steady and averaged about 12.7% of its revenue. Although both Northern and the remainder of Regional had similar subscriber levels during these years, the apparent similarity in their administrative spending is purely coincidental. The bulk of Northern's subscribers were closely concentrated in a small number of systems in a relatively small geographic area. In contrast, Regional's remaining subscribers were spread across the country in over 500 systems. The resultant decentralized structure necessary to manage the subscriber base also necessitated the operation of three primary offices in Regional in these years. When the salary cost differential is removed from the analysis a much different picture emerges. Specifically, Northern's remaining administrative expenditures were significantly higher than those of the remainder of Regional. Through a comprehensive evaluation of Northern's administrative spending practices these expenditures were largely brought into line with those of the remainder of the Company. During the ten month period ended August 31, 1999, administrative spending at Northern was reduced from its previous average of 12.7% of revenue to just over 10.8%. This decline was more than sufficient to offset increased overhead costs at the head office level. The major sources of these cost reductions include:

- Data processing costs. As noted earlier, Northern was switched to a customer data base and billing software platform identical to that used in the Company's other operating divisions.

- Industry association fees. These costs were eliminated in fiscal 1999.

- Telephone and fax costs. Northern was switched to the same long distance service provider as the remainder of Regional.

- Bad debts. Northern's credit department was completely restructured and Regional's strict credit policies were implemented. The Company maintained its low bad debt to revenue ratio of 0.4% in fiscal 1999.

The Company's targeted fiscal 2000 administrative expenditure level is 11.9% of revenue. This will be achieved through continued focus on cost control. In particular, management believes that there is still opportunity for future expense reductions in the Company's Northern division. While Northern's administrative spending was reduced to 10.8% of revenue in fiscal 1999, the ratio in the remaining operating divisions averaged a full percentage point lower at 9.8% in the year.

Marketing expenses totaled just over $3.5 million in fiscal 1999 and were 4.2% of revenue; just slightly above the 4.1% level of fiscal 1998. Expenditure patterns are also relatively consistent in these years among operating divisions. Although spending appears flat, total spending has in fact increased modestly; from $1.39 PSPM in fiscal 1998 to $1.43 PSPM in fiscal 1999, representing as 2.9% increase. Regional continues to emphasize marketing activities and channel/service enhancement to drive internal subscriber growth and to protect its subscriber base in the increasingly competitive marketplace. In fiscal 2000, marketing costs are targeted to increase to 4.7% of revenue or $1.63 PSPM. In the first two months of fiscal 2000, the Company attracted 9,000 new orders for cable service through various marketing initiatives.

Broadcast services expenditures totaled $434,000 and were 0.5% of revenue in fiscal 1999. As community programming and programming fund costs are CRTC regulated and therefore largely non-controllable, the Company has shifted from a cost control focus to a

revenue generation focus in managing this aspect of the business. Specifically, Northern's broadcast services are operated as a separate department under the control of one senior manager dedicated entirely to these operations. That individual's compensation is tied to the achievement of established goals. In fiscal 2000, the goal is to generate net advertising and ancillary revenue streams sufficient to recover all broadcast services expenditures.

Through all of the foregoing, operating expenses are targeted to fall slightly from the fiscal 1999 level of 32.7% of revenue to 32.5% of revenue in fiscal 2000. Management's compensation continues to be tied to the achievement of this goal and related goals.

Operating Income (EBITDA) and Margins

Operating income grew from $23.2 million in fiscal 1998 to just under $38 million in fiscal 1999; an increase of nearly $14.8 million or about 63.4%. This growth was largely acquisition driven. From fiscal 1998 to fiscal 1999 the Company's operating margin declined from 49% to 45% and its operating income per subscriber per annum fell from $202 to $186. These declines are attributable entirely to increased signal and copyright costs.

The Company actually reduced its operating expenses from 33.3% to 32.7% of revenue from fiscal 1998 to 1999 and increased its revenue from $34 PSPM to $35 PSPM over the same period. Signal and copyright costs, however, increased from 19.6% to 23.6% of subscription revenue or from $5.99 PSPM to $7.42 PSPM over this period due to:

- The acquisition of Northern. The bulk of Northern's subscribers are located in Class 1 and 2 systems which are rate regulated and subject to "must carry" and linkage rules with respect to signal carriage. As well, Northern obtains a larger portion of its subscription revenue from tier and pay services than the remainder of Regional. These services yield a lower gross margin than basic cable subscriptions.

- The increased emphasis on tier and pay services to generate revenue growth. While these services represent a significant growth opportunity within Regional and are structured to be as profitable as possible while providing value to subscribers, the margins are lower than basic cable margins.

Financing Activity and Interest Expense

Financing activities aimed at raising the capital to support the Company's non-metropolitan cable system acquisition program were completed in fiscal 1998, culminating with the closing on July 15, 1998 of a $175 million revolving credit facility (the "Revolver") structured and underwritten by Bank of Montreal and funded by that bank and a syndicate of six other banks. As sufficient resources exist to fund the Company's acquisition program in its existing form, no new major financing initiatives were undertaken during fiscal 1999. Additional capital raised during fiscal 1999 was limited to an injection of $747,500 into Western by its minority shareholder, Saskatchewan Telecommunications Holding Corporation ("Sasktel"). Sasktel owns 29.9% of Western and the injection represented its pro rata share of a $2.5 million addition to contributed capital undertaken to assist Western in financing its cable system acquisitions. Additional capital contributions are anticipated as further acquisition opportunities emerge in Western.

During fiscal 1999, the Company drew down its Revolver by $51.3 million in connection with its acquisition of Northern and made repayments of approximately $7.2 million on secured debentures and capital lease obligations. As a result, total debt increased from approximately $77.5 million at August 31, 1998 to approximately $122.7 million at August 31, 1999. On a per subscriber basis, however, total debt fell from $733 per subscriber in fiscal 1998 to $595 per subscriber in fiscal 1999. This equates to a 18.8% decline. As well, the Company's total debt leverage ratio (total debt to operating income ratio), which has declined every year since fiscal 1994, fell from 3.6:1 at August 31, 1998 to 3.4:1 at

August 31, 1999. Both of these ratios are at their lowest level in the Company's history. The declines are attributable primarily to the fact that only $51.3 million of total fiscal 1999 acquisition expenditures of $137.4 million were financed by debt. The remaining $86.1 million was derived primarily from equity capital raised in fiscal 1998 and cash flow.

Interest costs increased from $7.3 million in fiscal 1998 to $9.4 million in fiscal 1999 due to the increased debt load. However, the Company's interest coverage ratio (operating income to interest expense ratio) increased from 3.2:1 in fiscal 1998 to 4.1:1 in fiscal 1999. This large increase is also attributable primarily to the fact that the majority of fiscal 1999 acquisition spending was financed from equity capital and cash flow rather than debt. The Company's secured debentures and its capital leases bear weighted average fixed rates of approximately 8.2% and 9.2%, respectively. Revolver draws are primarily in the form of banker's acceptances with discount and stamping fees yielding an average overall floating rate of about 6%.

On November 1, 1999 Western drew down the Revolver by $6.2 million and applied the proceeds toward its acquisition of the cable assets of two cable television companies serving 5,850 subscribers in British Columbia. This draw increased the total accumulated draw to $57.5 million, leaving the Company with $117.5 million available under the Revolver to finance future acquisitions.

Capital Activity and Amortization Expense

Capital expenditures increased from approximately $10 million or $87 per subscriber in fiscal 1998 to approximately $20.6 million or $94 per subscriber in 1999. Expenditure levels fluctuate from year to year depending on the size of the Company's subscriber base, the timing of various capital projects and the type of projects undertaken. Total spending is typically tied to the Company's ability to effectively and efficiently manage capital projects and to cash flow levels. Capital expenditures in both fiscal 1998 and 1999 were financed from operating cash flow. The major cause of the large increase in capital expenditures from fiscal 1998 to 1999 is the increase in the Company's subscriber base attributable to acquisitions. On a per subscriber basis, increased capex in fiscal 1999 is attributable to both the nature and the number of the projects undertaken. Specifically, the Company increased expenditures on plant upgrades to expand channel capacity and on channel additions and new project offerings (tier & pay services, etc.) in order to both protect and grow its subscriber base and to enhance revenue levels. The increased spending in fiscal 1999 was supported by the Company's increased cash flow.

Included in fiscal 1999 capital expenditures was approximately $10.6 million for plant upgrades to expand channel capacity and for decoding and other equipment for channel additions undertaken in the year, including the expansion of tier services. The Company's Northern division also spent $730,000 to convert its systems to carry Star Choice signals. Previously, these signals were received from Cancom at rates between 17.5 cents and 25 cents per channel subscriber per month. The Star Choice rate is currently 10 cents, yielding annual savings at Northern of about $500,000 based on existing subscriber levels. In addition, the Company spent approximately $1.4 million to finance headend consolidation projects using fibre optic technology. These projects, which resulted in the elimination of 13 headends in fiscal 1998 and 15 headends in fiscal 1999, will reduce maintenance costs, improve system reliability, and provide the Company with redundant decoding equipment that can be used to significantly enhance the channel lineups of more remote systems with a negligible capital outlay. Further benefits of headend reductions include:

- Reduction in the cost of future channel launches in fibred systems as receiving and decoding equipment has to be installed in a smaller number of headends.
- Creation of critical mass sufficient to support new product offerings such as tier and pay services.

The Company's capital budget for fiscal 2000 provides for a capital expenditure level of approximately $93 per subscriber; virtually identical to its fiscal 1999 level. Total spending is targeted at $23.5 million in fiscal 2000. Of this, approximately two thirds or $15.5 million is slated for plant upgrades to expand channel capacity and for channel additions and new service launches. The Company's Northern division will spend $3 million in fiscal 2000 on the roll out of digital tech-

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nology in the Company's largest towns, Timmins and Sudbury. That division will also spend $570,000 on telecom equipment to support initiatives that are expected to generate at least $1.4 million in revenue in fiscal 2000.

Amortization charges climbed from $8.4 million in fiscal 1998 to $14.4 million in fiscal 1999 as the Company virtually doubled in size during fiscal 1999. In particular, amortization of capital assets increased from $6.7 million to $10.3 million over these years as the Company's capital asset base grew from $68.4 million as at August 31, 1998 to $114.9 million as at August 31, 1999. Likewise, the Company's subscriber cost base grew from $23.8 million at August 31, 1998 to $123.4 million at August 31, 1999 due to acquisitions in fiscal 1999, thereby causing amortization of charges on the subscriber cost base to increase from $690,000 to nearly $2.8 million.

Income & Capital Taxes

The Company's income and capital taxes have fluctuated widely over the past several years. Prior to fiscal 1997, tax provisions in the Company's financial statements consisted only of current taxes on capital. In those years, the benefits of accumulated non-capital tax loss carryforwards exceeded net taxable timing differences between the accounting and tax values of capital and intangible assets. In short, taxes were sheltered by net accumulated tax loss carryfowards. In fiscal 1997, the Company recorded its first deferred income tax provision as continuing profitable operations and corporate tax planning strategies permitted the recording of a portion of the previously unrecognized benefits associated with remaining tax loss carryforwards. Taxes in that year totaled $914,000 and were comprised of deferred taxes of $550,000 and capital taxes of $364,000.

Fiscal 1998 taxes increased to $4,524,000, comprised of deferred taxes of $3,869,000 and capital taxes of $655,000. The increased capital taxes were due to a higher capital base created by the equity capital raised in the year. The increased deferred tax provision in fiscal 1998 was due to the fact that the Company's reporting of income taxes is based on the full recognition of the benefits of available tax loss carryforwards and net taxable timing differences. Absent the effect of the benefits from the remaining tax loss carryforwards recognized in fiscal 1997 and the increased capital taxes in fiscal 1998 due to the larger capital base, the effective income tax rates between 1997 and 1998 were comparable.

In fiscal 1999 taxes totaled $9,173,000 and were comprised of deferred income taxes of $7,873,000, current income taxes in Western of $392,000 and current capital taxes of $908,000. Western utilized all of its remaining non-capital tax loss carryforwards and became currently taxable in fiscal 1999. Regional (absent Western) has accumulated non-capital tax loss carryforwards of $7.1 million remaining as at August 31, 1999 which are expected to be fully utilized in fiscal 2000. Combined capital taxes increased from $655,000 in fiscal 1998 to $908,000 in fiscal 1999 due primarily to increases in the capital tax base attributable to acquisitions.

The Company's effective tax rate increased from 42.75% in fiscal 1998 to 43.74% in fiscal 1999 due primarily to the acquisition of Northern. That acquisition increased the portion of the Company's income earned in the province of Ontario which has among the highest provincial corporate tax rates in Canada. Despite this increase, the Company's tax provision as a percentage of accounting income before tax and minority interest actually fell significantly; from 57.4% in fiscal 1998 to 45.5% in fiscal 1999. In both years, the effective tax rates yielded by comparing the Company's tax provision to its accounting income appear higher than the Company's true effective tax rate. There are two reasons for these results:

- Amortization charges in both fiscal 1998 and 1999 include amounts with respect to the amortization of subscriber costs. Most of this amortization is not deductible for tax purposes since it relates to subscriber costs created on the acquisition of the shares of various cable television companies purchased by Regional. Accordingly, tax provisions as a percentage of accounting income appear higher than the Company's true effective tax rate.
- Fiscal 1999 income includes $6 million of gains on dispositions of capital assets

triggered primarily by two system divestitures in Quebec during the year; one in connection with the acquisition of Northern and one arising from a system swap with Cogeco Cable. Net tax on these gains was only $835,000 as the Company used available capital tax loss carryforwards to largely shelter these gains from tax. This reduced the fiscal 1999 tax provision to 45.5% of accounting income. The Company has about $46 million in capital tax loss carryforwards available to shelter future capital gains.

Net Income & Per Share Amounts

Net income and earnings per share increased from $3.1 million and $0.28, respectively, in fiscal 1998 to $10.6 million and $0.72, respectively, in fiscal 1999. Cash flow per share increased from $1.41 to $1.84 over the same period. Adjusted for net of tax gains on the disposition of capital assets of $5.2 million and $352,000 in fiscal 1999 and 1998, respectively, net income increased from $2.7 million in fiscal 1998 to $5.4 million in fiscal 1999. Similarly, absent gains, net income per share increased from $0.25 in fiscal 1998 to $0.37 in fiscal 1999.

Year 2000 Readiness

Regional is heavily reliant on computer dependent equipment, systems, suppliers and third parties. Most suppliers and third parties with which Regional conducts business are themselves heavily reliant on suppliers and third parties that are computer dependent. The Company has developed and implemented a Year 2000 compliance plan designed to identify and assess all equipment, systems and operations that may be affected by the Year 2000 issue. However, due to the existance of computer interdependencies, it is not possible to be certain that all aspects of the Year 2000 issue that may affect the Company will be fully resolved. The potential impact of Year 2000 problems on the Company is far reaching and such problems could have a material adverse impact on the Company's ability to conduct normal business operations.

Regional's Year 2000 readiness project spanned across all operating divisions and departments. Senior management has been directly involved in the execution of the Company's compliance plan, regularly monitored progress at the operating division level through an established reporting structure, and reported activities and results to the Board of Directors on a quarterly basis.

The Company's evaluation of its internal accounting and management information systems, its office equipment and telephone systems, its customer data base and billing systems, its technical (signal receiving, decoding and distribution) systems and its various ancillary equipment and systems is considered complete. Equipment, software and systems that were identified as non-compliant were relatively minor and have been either replaced or modified to become compliant. Costs were not significant. No material risks are known to exist.

The Company has identified and contacted its key suppliers and third parties with which it conducts business with respect to their Year 2000 activities and the Year 2000 compliance of their internal systems and operations. Included were the Company's critical technical equipment suppliers, its signal providers, its banking institutions, its insurance providers, its registrar and transfer agent, utilities supplying telephone and electric services, and others. Generally, the suppliers and third parties that have responded to Regional's enquiries have indicated that they have Year 2000 compliance plans in place and have assessed, and modified or replaced where necessary, their internal systems. Most have indicated, however, that although they expect their internal systems to be compliant, they can provide no guarantee that they will not be affected in a material adverse manner by Year 2000 problems. In particular, respondents have generally indicated that they are themselves reliant on various suppliers and third parties whose compliance is unknown or uncertain. No respondent, however, has indicated that it does not expect to be compliant or that material risks of non-compliance are known or thought to exist. It is management's intention to continue to monitor the Year 2000 status of key suppliers and third parties on an active basis to ensure it is kept abreast of any developments in this regard.

FIVE YEAR SUMMARY

	FISCAL YEAR ENDED AUGUST 31,				
	1999	1998	1997	1996	1995
Subscriber Data (1)					
Basic Subscribers	218,000	115,000	112,000	114,000	113,000
Potential Subscribers	324,000	190,000	190,000	197,000	195,000
Penetration Rate	67%	61%	59%	58%	58%
Tier Subscribers	111,500	20,800	13,300	10,800	10,800
Pay TV Subscribers	26,100	8,900	8,000	7,300	6,500
Income Statement Data (000's)					
Revenue	$84,214	$47,197	$44,487	$43,855	$41,621
Operating Income (EBITDA) (2)	$37,949	$23,226	$21,904	$20,941	$16,883
Cash Flow (3)	$27,280	$15,316	$13,755	$13,372	$8,065
Net Income Before Tax	$19,810 (4)	$7,600	$6,355	$5,049	$2,247
Net Income	$10,637 (4)	$3,076 (5)	$5,441	$4,700	$1,941
Balance Sheet Data (000's)					
Total Assets	$259,313	$176,439	$104,900	$100,579	$92,786
Total Liabilities	$169,585	$98,191	$104,702	$106,386	$102,749
Current Assets	$14,342	$67,112	$10,503	$4,145	$6,317
Current Liabilities	$31,088	$16,316	$19,896	$20,236	$39,097
Total Debt	$129,785	$84,309	$93,712	$92,649	$84,178
Minority Interest Position (6)	$2,570	$1,476	$1	$2,680	$4,462
Shareholders' Equity	$89,728	$78,248	$1,502	$(6,133)	$(7,917)
Key Ratios					
Revenue per Subscriber per Month (7)	$35	$34	$33	$32	$31
Operating Income per Subscriber (7)	$186	$202	$196	$184	$150
Operating Margin (8)	45%	49%	49%	48%	41%
Total Debt/Operating Income	3.4 times	3.6 times	4.3 times	4.4 times	5.0 times
Total Debt per Subscriber	$595	$733	$837	$813	$745
Operating Income/Interest Expense	4.1 times	3.2 times	2.8 times	2.9 times	2.0 times
Bad Debts, Percent of Revenue	0.4%	0.4%	0.6%	0.5%	0.8%
Operating Income per Employee (000's)	$134	$162	$156	$152	$120
Capital Expenditures per Subscriber	$94	$87	$71	$122	$49
Kilometres of Fibre Optic Plant	1,508	436	211	10	0
Per Share Data (9)					
Operating Income (EBITDA)	$2.55	$2.14	$3.89	$3.73	$3.01
Cash Flow	$1.84	$1.41	$2.45	$2.40	$1.45
Net Income Before Tax	$1.33	$0.70	$1.13	$0.90	$0.40
Net Income	$0.72	$0.28	$0.97	$0.84	$0.35
Average Market Price	$12.83	$10.64	$6.30	$2.75	N/A
Average Price/Earnings	17.80	38.00	6.50	3.30	N/A
Average Price/Cash Flow	7.00	7.50	2.60	1.10	N/A
Other Data (Millions)					
Non-Capital Tax Loss Carryforwards	$7.1	$15.0	$20.0	$28.8	$20.9
Net Capital Tax Loss Carryforwards	$46.0	$48.8	$48.8	$48.8	$48.8
Common Shares Outstanding, at Fiscal Year End	14.9	14.7	6.5	5.6	5.6
Common Shares Outstanding, Weighted Average	14.8	10.9	5.6	5.6	5.6

(1) As at November 1, 1999 the Company served approximately 226,000 subscribers, and had under contract or letter of intent cable system acquisitions comprising a further 29,750 subscribers.
(2) Operating income (EBITDA) means net income before interest, taxes and non-cash items.
(3) Cash flow means net income before non-cash items.
(4) Includes gains on dispositions of redundant assets and non-core cable systems of approximately $6 million.
(5) The decline in net income in fiscal 1998 is due to the recognition of a deferred tax charge of $3,869,000 (Fiscal 1997 - $550,000, Prior to fiscal 1997 – NIL). By fiscal 1998, ongoing profitability levels had eroded the Company's non-capital tax loss carryforwards to the point where they were no longer sufficient to negate deferred tax provisions.
(6) The decline in minority interest position in fiscal 1996 was due to the Company's buy out of the minority shareholder in its Atlantic division. The decline in fiscal 1997 was attributable to a distribution by the Company's 70.1% owned subsidiary, Regional Cable TV (Western) Inc. ("Western"), to its minority shareholder, Saskatchewan Telecommunications Holding Corporation ("Sasktel"). Subsequently, minority interest has increased due to Western's profitablility and to equity injections of $1,196,000 and $747,500 by Sasktel in fiscal 1998 and 1999, respectively, representing its pro-rata share of capital contributions designed to assist Western in funding its cable system acquisition program.
(7) Based on average subscriber levels for the year.
(8) Operating margin means operating income (EBITDA) divided by revenue.
(9) Per share data is based on the weighted average number of common shares outstanding during the period.

MANAGEMENT'S AND AUDITORS' REPORTS

MANAGEMENT'S REPORT

The management of Regional Cablesystems Inc. is responsible for the preparation and integrity of the financial statements and related financial information of the Company. The financial statements in this annual report have been prepared by Company management in accordance with generally accepted accounting principles and, where necessary, utilizing management's judgement and best estimates. The financial and operating information presented elsewhere in this annual report is consistent with that shown in the financial statements.

To help fulfill its responsibility, and to ensure integrity of financial reporting, management maintains a system of internal controls encompassing all financial records. These controls, which include timely periodic reporting of financial information, provide reasonable assurance that assets are safeguarded and transactions and events are properly recorded. The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, which reviews the annual financial statements of the Company and recommends their approval to the Board of Directors.

Deloitte & Touche LLP, independent auditors appointed by the shareholders, have free access to the Audit Committee both with and without management present. The auditors have examined the financial statements in this annual report and met with management and with the Audit Committee to discuss their findings, including the fairness of financial reporting and the results of their review of internal controls. The auditors report directly to the shareholders and have expressed their opinion on the Company's financial statements in the following report.

AUDITORS' REPORT

The Shareholders,
Regional Cablesystems Inc.

We have audited the consolidated balance sheets of Regional Cablesystems Inc. as at August 31, 1999 and 1998 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Deloitte + Touche.

Deloitte & Touche LLP
Chartered Accountants

St. John's, Newfoundland,
October 22, 1999.

CONSOLIDATED BALANCE SHEET

August 31, 1999

(In thousands of dollars)		**1999**		1998
ASSETS				
CURRENT				
Cash	$	**7,726**	$	63,746
Accounts receivable		**2,834**		1,124
Inventory		**2,660**		1,339
Prepaid expenses		**1,122**		903
		14,342		67,112
Note receivable (Note 3)		**522**		522
Capital assets (Note 4)		**114,889**		68,392
Deposits on acquisition of cable systems		**2,438**		11,847
Subscriber costs		**123,428**		23,810
Deferred charges		**3,694**		4,756
	$	**259,313**	$	176,439
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	$	**19,524**	$	6,378
Subscriber prepayments		**4,470**		3,089
Current portion of long-term debt (Note 5)		**7,094**		6,849
		31,088		16,316
Long-term debt (Note 5)		**122,691**		77,460
Deferred income taxes		**13,236**		2,939
Minority interest		**2,570**		1,476
		169,585		98,191
SHAREHOLDERS' EQUITY				
Share capital (Note 6)		**153,099**		152,256
Deficit		**(63,371)**		(74,008)
		89,728		78,248
	$	**259,313**	$	176,439

Approved by the Board:

Director Gary D Kand   Director Ian Jamison

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

Year Ended August 31, 1999

(In thousands of dollars)	**1999**	1998
REVENUE		
Cable	**$ 83,202**	$ 47,197
Internet and telecom	**596**	-
Microwave	**416**	-
	84,214	47,197
DIRECT COSTS		
Signal and copyright	**18,164**	8,269
Internet and telecom	**339**	-
Microwave	**233**	-
	18,736	8,269
NET REVENUE	**65,478**	38,928
OPERATING EXPENSES		
Technical	**13,247**	7,942
Administration	**10,338**	5,846
Marketing	**3,510**	1,914
Broadcast services	**434**	-
	27,529	15,702
OPERATING INCOME	**37,949**	23,226
OTHER EXPENSES		
Interest	**9,369**	7,255
Amortization	**14,437**	8,444
Gain on disposal of assets	**(6,013)**	(352)
	17,793	15,347
Income before undernoted items	**20,156**	7,879
Income taxes (Note 7)	**(9,173)**	(4,524)
Income before minority interest	**10,983**	3,355
Minority interest	**(346)**	(279)
Net income for the year	**10,637**	3,076
Deficit, beginning of the year	**(74,008)**	(77,084)
Deficit, end of the year	**$(63,371)**	$ (74,008)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended August 31, 1999

(In thousands of dollars)	1999	1998
CASH FLOWS FROM OPERATING ACTIVITES		
Net income for the year	$ 10,637	$ 3,076
Adjusments for:		
Amortization of capital assets	10,316	6,716
Amortization of subscriber costs	2,759	690
Amortization of deferred financing costs	1,069	530
Amortization of deferred charges	293	508
Gain on disposal of assets	(6,013)	(352)
Deferred income taxes	7,873	3,869
Minority interest	346	279
	27,280	15,316
Change in non-cash operating working capital (net of effects of acquisition of subsidiaries)	7,537	(1,317)
Cash flows from operating activities	34,817	13,999
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of subsidiaries, net of cash acquired (Note 8)	(137,400)	-
Proceeds from disposal of assets	11,950	1,411
Purchases of capital assets	(20,567)	(10,046)
Deferred charges	(300)	(432)
Deposits on acquisition of cable systems	9,409	(11,847)
Cash flows used in investing activities	(136,908)	(20,914)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt proceeds	51,300	-
Long-term debt repayments	(7,155)	(9,403)
Net proceeds on share issuances	1,178	72,190
Repayment of note receivable	-	125
Deferred financing charges	-	(1,373)
Investment by minority shareholder in subsidiary	748	1,196
Cash flows from financing activities	46,071	62,735
Net increase (decrease) in cash	(56,020)	55,820
Cash, beginning of the year	63,746	7,926
Cash, end of the year	$ 7,726	$ 63,746

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

August 31, 1999

1 DESCRIPTION OF THE BUSINESS

Regional Cablesystems Inc. ("Regional") and its 70.1% owned subsidiary, Regional Cable TV (Western) Inc. ("Western") (collectively the "Company") are licensed to operate cable television systems in non-metropolitan markets in Canada. During the year ended August 31, 1999, Western served approximately 45,000 subscribers in British Columbia, Alberta, Saskatchewan and Manitoba. Regional's Atlantic Division served approximately 48,000 subscribers in Newfoundland, its Central Division served approximately 28,000 subscribers in Ontario and Quebec and its Northern Division served approximately 99,000 subscribers in Northern Ontario.

2 ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the following significant accounting policies.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Regional and Western. Significant intercompany accounts and transactions have been eliminated.

INVENTORY

Inventory is recorded at the lower of cost and net realizable value.

CAPITAL ASSETS

Capital assets are recorded at the cost of acquisition.

Amortization is provided over the estimated useful lives of the capital assets as follows:

Buildings	5% declining balance
Cable systems	20 years straight line
Microwave systems	20% declining balance
Other equipment	20% declining balance
Vehicles	30% declining balance
Digital decoders under capital lease	Life of lease, straight line
Leasehold improvements	Life of lease, straight line

2 ACCOUNTING POLICIES

SUBSCRIBER COSTS

Subscriber costs represent the excess of the purchase price over the fair market value of the net tangible assets arising from the acquisition of cable television systems. Subscriber costs are amortized on a straight line basis over 40 years.

The Company assesses the continuing value of subscriber costs each year by considering current operating results, industry trends and projections. If an impairment in value occurs, the subscriber costs will be reduced by a charge to operations in the year of impairment.

DEFERRED CHARGES

Deferred charges are comprised primarily of debt issue costs. Deferred charges arising on the issuance of debt are amortized on a straight line basis over the repayment term of the related debt. Other deferred charges are amortized on a straight line basis over five years.

FINANCIAL INSTRUMENTS

The carrying amounts for cash, accounts receivable, accounts payable and subscriber prepayments approximate fair value due to the short maturity of these instruments. The carrying value of debt financing approximates its fair value as the Company's intention is to hold the debt to maturity.

INCOME TAXES

Income taxes have been provided on the tax allocation basis whereby the provision for income taxes is determined on the basis of income and expenses included in the statement of operations and deficit, rather than the related amounts reported in the Company's income tax returns. Deferred income taxes relate primarily to timing differences arising between the amounts recorded for accounting and income tax purposes reduced by the tax benefit associated with losses incurred.

PENSION PLAN

The Company has a defined contribution pension plan. Employee contributions are calculated according to a specified rate applied to salary and are matched by the Company. The Company's contributions are expensed as incurred.

2 ACCOUNTING POLICIES

USE OF ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, however, such differences would not be expected to have a material impact on these financial statements.

3 NOTE RECEIVABLE

The note receivable is due from an officer and director of Regional and is repayable on the earlier of December 31, 2010 and the date on which the common shares of Regional trade at a pre-determined level. The note was issued to purchase common shares of Regional and is secured by such shares. Interest is payable on the note equal to the amount of dividends received on the purchased shares.

4 CAPITAL ASSETS

	(000's)			
	1999			1998
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Land	**$ 569**	**$ -**	**$ 569**	$ 142
Buildings	**2,565**	**452**	**2,113**	974
Cable systems	**156,002**	**65,674**	**90,328**	59,213
Microwave systems	**1,010**	**64**	**946**	-
Other equipment	**27,797**	**13,190**	**14,607**	2,412
Vehicles	**5,075**	**1,798**	**3,277**	1,309
Digital decoders under capital lease	**6,471**	**3,564**	**2,907**	4,191
Leasehold improvements	**580**	**438**	**142**	151
	$ 200,069	**$ 85,180**	**$ 114,889**	$ 68,392

5 LONG-TERM DEBT

	(000's) 1999	1998
Secured debentures, bearing interest at rates of 7.50%, 7.95% and 8.55%, repayable in monthly installments of $500,000 plus interest, maturing September 4, 2001	**$ 74,250**	$ 80,250
Revolving term credit facility, maturing July 15, 2003	**51,300**	-
Obligations under capital leases, bearing interest at rates ranging from 5.75% to 10.43%, with various repayment terms	**4,235**	4,059
	129,785	84,309
Less current portion	**7,094**	6,849
	$ 122,691	$ 77,460

Debentures are repayable as follows:

	(000's)
2000	$ 6,000
2001	6,000
2002	62,250
	$ 74,250

The Company has entered into a revolving term credit facility agreement under which the lenders will provide up to $175 million in financing. Amounts owing under this facility bear interest at Bankers' Acceptance rates plus a negotiated stamping fee. The undrawn reserve of $123.7 million is available for financing future cable system acquisitions.

The future minimum lease payments required for the obligations under capital leases are as follows:

	(000's)
2000	$ 1,457
2001	1,527
2002	1,527
2003	472
	4,983
Less amounts representing interest and executory costs	748
	$ 4,235

5 LONG-TERM DEBT *(cont'd)*

Obligations under capital leases are secured by the specific leased assets.

Secured debentures and the revolving term credit facility are secured by a first, fixed and floating charge over all assets of the issuer, excluding assets pledged as security for capital lease obligations. The common shares of Western, owned by Regional, are pledged as security, on a senior basis, for Regional's guarantee of the secured debentures of Western and, on a junior basis, for Regional's secured debentures.

During the year, interest incurred on long-term debt amounted to $9,132,000 (1998 - $7,219,000). Interest of $9,300,000 (1998 - $7,262,000) was paid in the year.

6 SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares.

	1999		1998	
	Common Shares	**(000's) $**	Common Shares	(000's) $
Balance, beginning of the year	**14,743,531**	**$ 152,256**	6,493,531	$ 78,586
Shares issued for cash	**126,594**	**707**	8,250,000	76,125
Shares issued in exchange for shares of acquired company	**40,000**	**478**	-	-
Fractional shares expired	**(25)**	**-**		
Share issue costs	**-**	**(342)**	-	(2,455)
Balance, end of the year	**14,910,100**	**$ 153,099**	14,743,531	$ 152,256

On November 1, 1998, Regional issued 40,000 common shares for gross proceeds of $478,000 in connection with its purchase of the shares of Cable Labrador Limited ("Labrador").

During the year Regional issued 126,594 common shares for approximately $707,000 in connection with options exercised.

As at August 31, 1999, Regional has the following options outstanding under its Share Option Plan:

Number of Shares	Option Price	Expiry Date
24,000	$ 5.00	August 31, 2005
51,100	$ 6.25	September 30, 2006
117,000	$ 6.50	September 1, 2007
140,000	$ 11.25	June 11, 2008
34,000	$ 10.55	September 10, 2008
366,100		

6 SHARE CAPITAL *(cont'd)*

Subsequent to the year end, 213,000 additional options were allotted at an option price of $13.85, with an expiry date of September 14, 2009. An additional 17,600 share options were exercised subsequent to year end for gross proceeds of approximately $112,000.

7 INCOME TAXES

The provision for income taxes reflects an effective tax rate which differs from the combined federal and provincial rates for the following reasons:

	(000's)	
	1999	1998
Income before income taxes	**$ 20,156**	$ 7,879
Combined statutory rate	**43.74%**	42.75%
Income tax expense at combined statutory rate	**8,817**	3,368
Capital taxes	**908**	655
Unrecognized benefits of capital loss carryforwards	**(1,795)**	-
Other	**1,243**	501
	$ 9,173	$ 4,524

Capital taxes of $1,193,000 (1998 - $231,000) were paid in the year.

At August 31, 1999, the Company has accumulated income tax losses of approximately $7,100,000 available to reduce future taxable income. These losses expire as follows:

	(000's)
2001	$ 2,350
2002	1,500
2003	2,200
2004	50
2005	1,000
	$ 7,100

As at August 31, 1999, the Company also has approximately $46 million in capital losses. These losses can be carried forward indefinitely and applied against future capital gains.

8 BUSINESS ACQUISITIONS

(i) On September 1, 1998, Regional purchased all of the outstanding shares of BMC Cablevision Company Limited ("BMC") and Bonavista Cablevision Limited ("Bonavista") at a gross purchase price of approximately $2,625,000. BMC and Bonavista were engaged in the cable television business and provided service to approximately 2,800 subscribers in Newfoundland. On September 1, 1998, BMC, Bonavista and Regional were amalgamated and continued operations as Regional Cablesystems Inc.

(ii) On September 1, 1998, Western purchased all of the outstanding shares of Western Canadian Communications Inc. ("WCCI") at a gross purchase price of approximately $4,000,000. WCCI was engaged in the cable television business and served a total of approximately 4,600 subscribers in Alberta. On September 1, 1998, WCCI and Western were amalgamated and continued operations as Regional Cable TV (Western) Inc.

(iii) On November 1, 1998, Regional purchased all of the outstanding shares of Northern Cable Holdings Limited ("Northern") and Labrador at gross purchase prices of approximately $119,200,000 and $3,450,000, respectively. Northern and Labrador were engaged in the cable television business. Northern provided service to approximately 100,000 subscribers in Northern Ontario and Labrador provided service to approximately 3,500 subscribers in Labrador.
Contemporaneous with its acquisition of Northern, Regional sold a cable system serving approximately 6,900 subscribers in Quebec for gross proceeds of approximately $8,637,000. On November 1, 1998, Northern, Labrador and Regional were amalgamated and continued operations as Regional Cablesystems Inc.

(iv) Western acquired all of the outstanding shares of Prairie Cable TV Ltd., Lac-Sat Communications Ltd. and Langdon Cable TV Limited on February 1, April 1 and August 1, 1999, respectively, at a combined gross purchase price of $2,648,000. Collectively, the acquired companies provided cable television service to 2,650 subscribers in Alberta. On September 1, 1999, Western and these acquired companies were amalgamated and continued operations as Regional Cable TV (Western) Inc.

(v) On July 1, 1999 Regional purchased all of the outstanding shares of CMD Cable Company Inc. ("CMD") at a gross purchase price of approximately $800,000. CMD provided cable television service to approximately 1,000 subscribers in Quebec. On September 1, 1999 Regional and CMD were amalgamated and continued operations as Regional Cablesystems Inc.

(vi) On August 31, 1999, Regional completed a multiple cable system swap with Cogeco Cable Inc. ("Cogeco") in order to enhance clustering efficiencies. Under the swap, Regional acquired several Cogeco cable systems serving approximately 3,200 subscribers in Eastern Ontario in exchange for several of its own systems serving approximately 2,300 subscribers in Southern Ontario and $800,000 in cash.

The fair values of the assets acquired and the liabilities assumed were as follows:

		(000's)
Cash	$	4,522
Working capital		(3,619)
Deferred income taxes		(2,089)
Capital assets		39,749
Subscriber costs		103,480
		142,043
Less: liabilities assumed		(121)
Less: cash acquired		(4,522)
Net cash paid	$	137,400

The acquisitions are accounted for by the purchase method and their results of operations are included in these financial statements from the date of each acquisition.

9 PER SHARE

	1999		1998	
	Basic	**Fully Diluted**	Basic	Fully Diluted
Operating cash flow for the year	**$ 1.84**	**$ 1.80**	$ 1.41	$ 1.37
Net income for the year	**$ 0.72**	**$ 0.71**	$ 0.28	$ 0.28

Operating cash flow for the year is defined as net income adjusted for non-cash items.

Per share data is calculated using the weighted average number of common shares outstanding. The fully diluted per share calculations assume that all share options were exercised at the later of the beginning of the year or when issued, and the funds derived therefrom had been invested to produce an annual return of 6%, before applicable income taxes. The amount of income imputed, after income taxes, was $105,000.

10 COMMITMENTS

(i) At August 31, 1999, the Company is committed under the terms of signal fee agreements and operating leases for annual minimum payments as follows:

		(000's)
2000	$	2,073
2001		1,993
2002		1,993
2003		314
2004		204
	$	6,577

(ii) On July 15, 1999, Regional and Shawville Cable Co. Ltd. ("Shawville") executed a letter of intent with respect to the purchase by Regional of all of the outstanding shares of Shawville for $600,000. Shawville provides cable television service to approximately 550 subscribers in Quebec. The purchase is subject to the execution of a definitive agreement of purchase and sale and approval by the CRTC.

(iii) On March 18, 1999, Western and Image Cable Systems Ltd., Image Management Services Ltd. and R.L.T.V. Investments Inc. (collectively, "Image") executed an agreement with respect to the purchase by Western of the cable assets of Image. Under the transaction Western will acquire 50 cable systems in Saskatchewan serving approximately 20,455 subscribers for a purchase price of $22,500,000. The purchase is subject to approval by the CRTC.

(iv) On May 20, 1999, Western and the Receiver Manager of Winnipeg River CATV Ltd. executed an asset purchase agreement under which Western will acquire a cable system serving approximately 500 subscribers in three communities in Manitoba for a purchase price of $300,000. The purchase is subject to approval by the CRTC.

(v) On July 22, 1999 Regional and Cablevision Du Nord executed an agreement of purchase and sale with respect to the acquisition by Regional of all the outstanding shares of Earlton Cable Vision Ltd. ("Earlton") for a purchase price of $210,000. Earlton provides cable television service to approximately 280 subscribers in Ontario. The purchase is subject to CRTC approval.

HORNEPAYNE

11 SUBSEQUENT EVENTS

VERNER

i) On September 30, 1999, Western received approval from the CRTC to purchase certain cable assets of Wood Lake Cable Ltd. and Keremeos Cable Ltd. Under the transaction, Western will acquire two cable systems serving approximately 5,850 subscribers in three communities in British Columbia for a purchase price of $6,200,000.

(ii) On October 21, 1999 Regional and Pontiac Cable Co. Ltd. ("Pontiac") executed a binding letter of intent with respect to the purchase by Regional of all of the outstanding shares of Pontiac at a purchase price of $714,000. Pontiac provides cable television service to approximately 650 subscribers in Quebec.

(iii) On September 1, 1999 Regional and Supreme Cable ("Supreme") executed an agreement of purchase and sale with respect to the acquisition by Regional of all of the outstanding shares of Supreme for a purchase price of $3.4 million. Supreme provides cable television service to approximately 3,850 subscribers in Ontario. The purchase is subject to CRTC approval.

12 YEAR 2000

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than that date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

13 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

MATTICE

CORPORATE AND INVESTOR INFORMATION

Board of Directors

Charles R. Allard
Chairman and Chief Executive Officer
WIC Premium Television Limited
Edmonton, Alberta

Ian Jamieson (*)
Chairman
Lincluden Management Limited
Oakville, Ontario

Gary D. Kain
Chairman
Regional Cablesystems Inc.
Oakville, Ontario

Philip Keeping (*)
Chairman and Chief Executive Officer
Cable Bahamas Limited
Nassau, Bahamas

Terry A. Lyons (*)
President and Managing Partner
B.C. Pacific Capital Corporation
Vancouver, British Columbia

Willard H. Yuill (*)
Chairman and Chief Executive Officer
Monarch Communications Inc.
Medicine Hat, Alberta

(*) Member of the Audit Committee

Officers

Gary D. Kain
Chairman

Brendan J. Paddick
President and Chief Operating Officer

John R. Reid
Vice President, Marketing and Communications

James D. Roberts
Vice President, Finance and Administration
and Secretary

Operating Region Management

Atlantic Division
Angus Marks
General Manager
St. John's, Newfoundland

Central Division
Dimitri Stathis
General Manager
Montreal, Quebec

Western Division
Fred P. Hosker
Vice President and General Manager
Edmonton, Alberta

Northern Division
Robert Everest
General Manager
Sudbury, Ontario

Corporate Head Office

Regional Cablesystems Inc.
17 Duffy Place
P.O. Box 12155, Station A
St. John's, NF A1B 4L1
Telephone: (709) 754-3775
Facsimile: (709) 754-3883

Chairman's Office

Regional Cablesystems Inc.
295 Robinson Street, Suite 300
Oakville, ON L6J 1G7
Telephone: (905) 338-3133
Facsimile: (905) 338-3137

Registrar and Transfer Agent

Requests for information concerning lost share certificates, address changes, or other shareholder account enquiries should be directed to the Company's registrar and transfer agent:

CIBC Mellon Trust Company
320 Bay Street, P.O. Box 1
Toronto, Ontario M5H 4A6
Telephone: (416) 643-5589
Facsimile: (416) 643-5570

Investor and Analyst Enquiries

To obtain financial and related information about the Company, including annual and quarterly reports and annual information forms, please contact:

Secretary
Regional Cablesystems Inc.
17 Duffy Place, P.O. Box 12155, Stn. A
St. John's, NF A1B 4L1
Tel: (709) 754-3775 *Fax:* (709) 754-3883

e-mail:
jroberts@regionalcable.com

Auditors

Deloitte & Touche LLP
St. John's, Newfoundland

Legal Counsel

Benson • Myles
St. John's, NF

Davies, Ward & Beck
Toronto, ON

Mailing Dates

Quarterly reports to shareholders are scheduled for mailing during the second week of January, April and July, 2000.

1999 Annual General Meeting

The annual general meeting of shareholders will take place at 11:00 a.m. (Toronto time) on Thursday, February 3, 2000 at the Sheraton Centre Hotel,
123 Queen Street W., Toronto, Ontario.

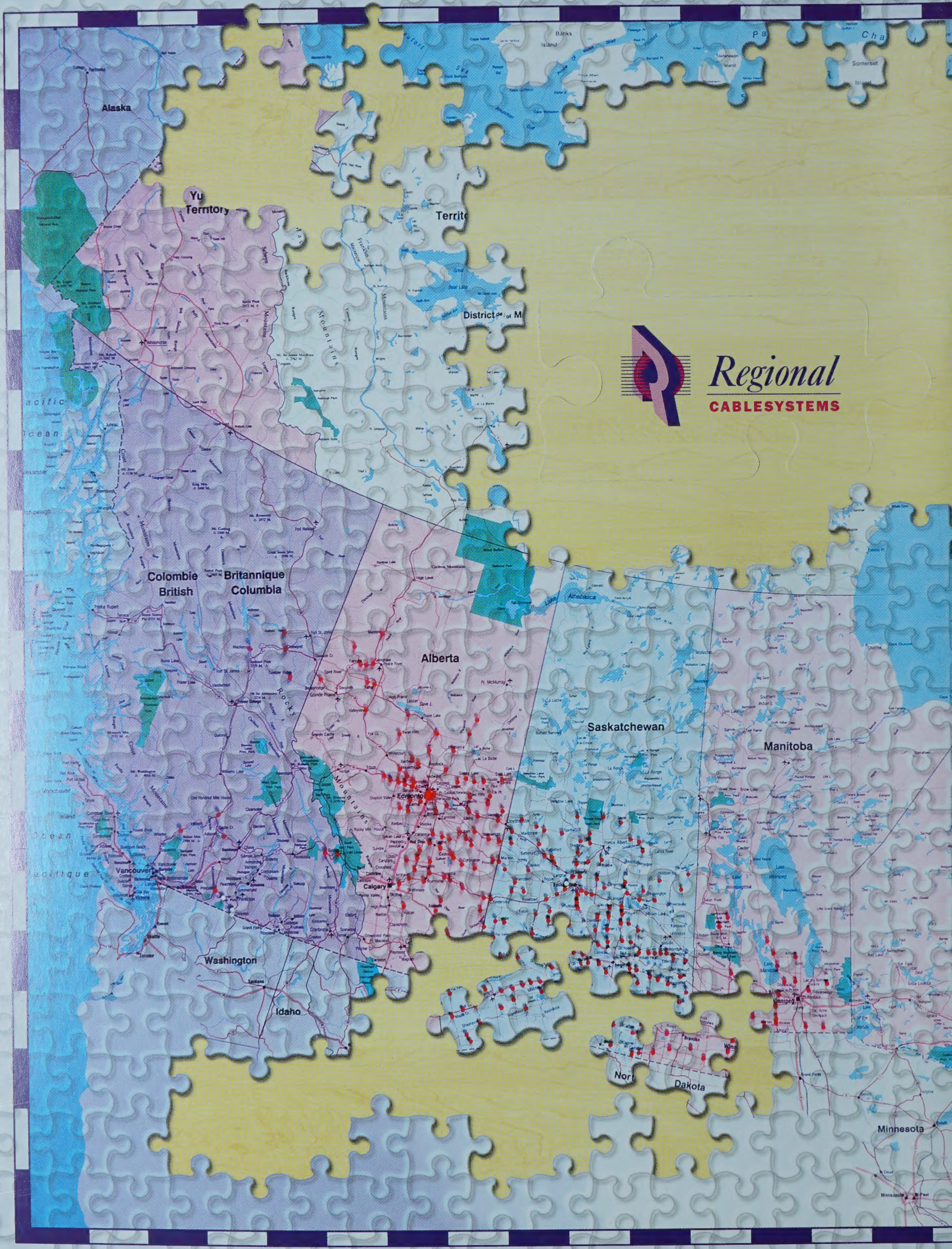
Internet Web Site:

www.regionalcable.com

Trading Statistics

The common shares of the Company trade on the Toronto Stock Exchange – Symbol: REG. The following table sets forth the reported high and low prices and trading volume for the common shares of the Company, as well as the Company's market capitalization, for the periods indicated.

Period	High	Low	Volume	Market Capitalization
Fiscal 1996				
First Quarter	$ 3.25	$ 2.00	155,062	$ 14.7 million
Second Quarter	$ 2.75	$ 2.05	19,932	$ 13.5 million
Third Quarter	$ 3.50	$ 2.55	24,890	$ 17.0 million
Fourth Quarter	$ 3.75	$ 3.00	29,565	$ 18.9 million
Fiscal 1997				
First Quarter	$ 6.50	$ 3.50	100,815	$ 28.1 million
Second Quarter	$ 6.50	$ 5.75	161,347	$ 34.4 million
Third Quarter	$ 7.00	$ 6.00	104,035	$ 36.5 million
Fourth Quarter	$ 7.40	$ 6.20	270,670	$ 44.2 million
Fiscal 1998				
First Quarter	$ 9.25	$ 6.32	148,636	$ 50.6 million
Second Quarter	$10.20	$ 7.00	1,135,881	$126.7 million
Third Quarter	$13.00	$ 9.90	1,749,838	$166.0 million
Fourth Quarter	$13.25	$10.20	1,068,282	$172.2 million
Fiscal 1999				
First Quarter	$12.50	$ 9.50	816,734	$157.5 million
Second Quarter	$13.50	$11.00	1,852,284	$171.8 million
Third Quarter	$17.85	$12.00	1,054,789	$215.1 million
Fourth Quarter	$16.00	$13.50	1,064,039	$225.0 million



Regional
CABLESYSTEMS
Alaska
Yu
Territory
Territ
District of M
Colombie
British
Britannique
Columbia
Alberta
Saskatchewan
Manitoba
Edmonton
Calgary
Vancouver
Washington
Idaho
Nort
Dakota
Minnesota